



THE GATEWAY TO MOTIVE POWER

KEIHIN CORPORATION

ANNUAL REPORT 2003

The Company was established in December 1956 as Keihin Seiki Manufacturing Co., Ltd. In 1997, through a merger with two other Honda Motor Co., Ltd.-affiliated automotive product makers, the Company became Keihin Corporation, a comprehensive automotive systems manufacturer.

Keihin has grown to become a truly global company, expanding its network beyond the borders of Japan to include operating units in China, Thailand, India, and other parts of Asia; North America; Brazil in South America; and, in Europe, the United Kingdom.

Keihin boasts the top global market share in motorcycle carburetors and its automobile fuel injection systems are also highly regarded by customers the world over. To help meet new environmental standards, the Company has also developed and now manufactures fuel injection systems for motorcycles, which it supplies to numerous manufacturers, both in Japan and overseas. Keihin has also expanded its product range beyond fuel supply systems and now manufactures and supplies customers worldwide a wide range of automotive components, including air-conditioning systems and electronic control units of all types.

With a strong concern for the natural environment, Keihin manufactures such environment-friendly products as components for compressed natural gas and liquefied petroleum gas vehicles and is currently developing components for fuel-cell vehicles and other products offering significant potential.

Keihin will contribute to the success and development of the automotive industry by continuing to supply products at the cutting edge of motorization.

Forward-Looking Statements

This annual report contains predictions and forecasts concerning Keihin's future plans, strategies, and results. These predictions and forecasts are not historical facts but represent judgments formed by management based on the information available at the time they were formed. As such, actual results may differ significantly due to factors including, but not limited to, economic trends, changes in the automobile and automobile component industries, market demand, foreign exchange rates, and tax systems.

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FINANCIAL HIGHLIGHTS

Keihin Corporation and Consolidated Subsidiaries
Years ended March 31, 2003, 2002 and 2001

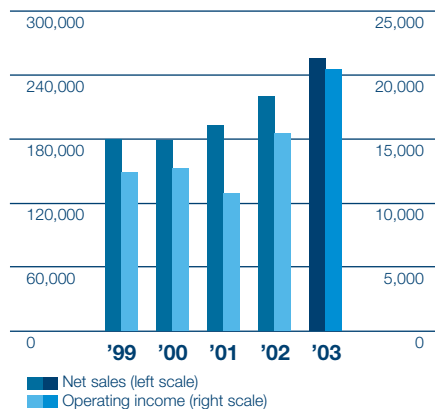
	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)
	2003	2002	2001	2003
For the year:				
Net sales	¥255,292	¥219,442	¥192,133	\$2,123,897
Operating income	20,438	15,424	10,751	170,031
Income (loss) before income taxes and minority interests in net income of consolidated subsidiaries	18,855	14,033	(1,296)	156,866
Net income (loss)	9,610	7,312	(1,518)	79,954
At year-end:				
Total shareholders' equity	¥ 75,010	¥ 69,534	¥ 61,804	\$ 624,041
Total assets	149,405	141,090	130,664	1,242,969
Per share of common stock (yen and U.S. dollars):				
Net income (loss):				
Basic	¥ 128.81	¥ 98.84	¥ (22.38)	\$ 1.07
Cash dividends	14.00	14.00	14.00	0.12

Notes: 1. The above amounts were prepared under generally accepted accounting principles and practices in Japan.

2. U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥120.20=US\$1. (See Note 3 of the Notes to the Consolidated Financial Statements.)

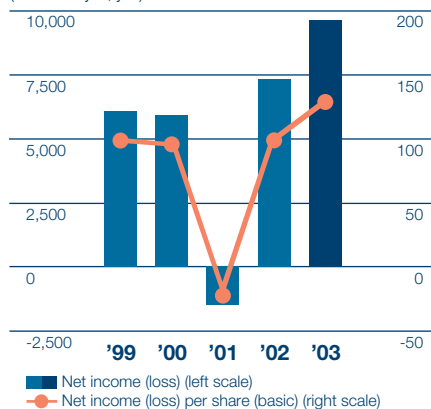
Net Sales and Operating Income

(Millions of yen)



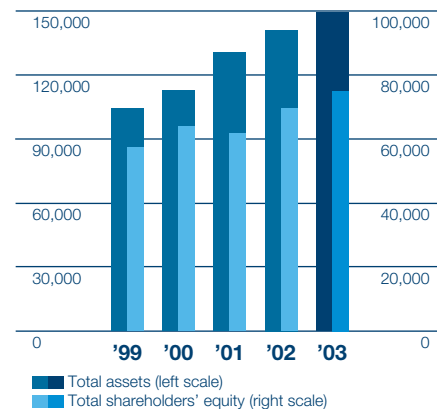
Net Income (Loss) and Net Income (Loss) per Share (Basic)

(Millions of yen, yen)



Total Assets and Total Shareholders' Equity

(Millions of yen)



TO OUR SHAREHOLDERS, EMPLOYEES, AND CUSTOMERS



Kentaro Kato
President & CEO

I would like to begin my review of fiscal 2003, ended March 31, 2003, with the results of Keihin Corporation's operations for the term. Net sales increased 16.3% compared with the previous fiscal year, to ¥255.3 billion. Operating income grew 32.5%, to ¥20.4 billion, and net income amounted to ¥9.6 billion. Return on equity (ROE) worked out to 13.3%, and return on assets (ROA) was 6.6%.

I am extremely pleased to report that Keihin achieved results that exceeded the goals it had announced in the previous year's annual report, which were a 7.6% increase in net sales, to ¥236.1 billion, and a 20.4% increase in net income, to ¥8.8 billion.

Although the automotive sector faces severe conditions as the battle for global corporate survival continues, Keihin recorded all-time-high operating income for a third consecutive year on the strength of robust sales of automotive products to Honda Motor Co., Ltd.; healthy earnings at its overseas subsidiaries; and the expansion of its scope of consolidation. In fiscal 2003, Keihin engaged in a range of initiatives announced at the beginning of the year: dramatically expanding its developmental capabilities, increasing cost-competitiveness, further enhancing its characteristic world-class quality, establishing a global supply framework, expanding business content, and making our workplace a stimulating environment for our employees. It is extremely gratifying to have achieved a record-breaking performance as a result of this hard work.

Dramatic expansion of developmental capability

In motorcycles, Keihin sought to meet the need for fuel injection systems that comply with increasingly stringent global emission restrictions. Taiwan Keihin Carburetor Co., Ltd., started mass-production of system products for the 125cc Motive Charge, which will be Taiwan's first fuel injection system for small displacement motorcycles, and, for the European market, Keihin delivered modularized systems that included

several new compact and low-cost products. Among these were throttle body and electronic control unit (ECU) modules for Honda's Pantheon 125cc and 250cc motorcycles and throttle body modules for the Triumph Daytona 600. In Japan, we also supplied new fuel injection systems for the Suzuki Skywave 250. Other steps taken to further expand and accelerate R&D activities included additional chassis dynamos for the Company's Tochigi Research & Development Center for the testing of fuel injection systems on actual motorcycles.

In automotive products, we invested in production equipment for injectors, compressors, and other products for the Honda Fit automobile. At the same time, nearly every type of Keihin product was used in Honda's new Accord, from the Company's core product of fuel supply systems through to its air-conditioning systems, ECUs, and transmission servo body assemblies. We also developed and delivered a range of fuel-cell system devices for use in Honda's FCX fuel-cell vehicle, which was introduced in December 2002. In the months and years ahead, we will continue to develop such cutting-edge technologies and strive for greater usage and market penetration.

To strengthen operations in the field of automotive electronic technologies, in March 2003, Keihin established a new development subsidiary, Keihin Electronics Technology Inc., in Sendai, Miyagi Prefecture. We also established a development subsidiary in China, which enjoys a growing automotive market and a wealth of valuable human resources. This new subsidiary, Keihin R&D China Co., Ltd., is our first overseas development center.

Increased cost-competitiveness

Firmly aware of the importance of enhancing its cost-competitiveness, Keihin steadily attained effective cost reductions in its manufactured goods. We have successfully developed ultralow-cost, high-precision product performance

measuring devices and inspection equipment that increase performance several-fold and enable reductions in capital outlays for production equipment. We are also expanding overseas procurement, and component import figures for fiscal 2003 increased 50% compared with the previous year. Through these and other efforts, Keihin will continue to maintain a global outlook in its international procurement.

Establishment of global supply framework

Keihin has been steadily building up its global supply framework with the advances made during fiscal 2003. We achieved full-scale operational status at Dongguan Keihin Engine Management System Co., Ltd.—our third subsidiary in China—transferred the production of throttle bodies from Japan to Keihin (Thailand) Co., Ltd., for automobile models for which production volumes have been increased, and commenced fully integrated production at Nanjing Keihin Carburetor Co., Ltd., from casting through assembly. We are also expanding mutual component and product supply among our overseas facilities, going beyond the borders of specific geographic regions. Substantial imports and exports between production bases in Asia, North America, and Europe were conducted during fiscal 2003, with the level of such activity 3.2 times that for the previous fiscal year.

Expansion of business content

In fiscal 2003, Keihin aggressively expanded into new product areas and obtained purchase orders for five new products in each of its motorcycle and automobile businesses, three new products in its electronics business, and two new products in its air-conditioning business. Additionally, sales to new customers increased fivefold year on year, with sales to Motorola, Inc., climbing 400% and sales of compressed natural gas (CNG) and liquefied petroleum gas (LPG) products surging tenfold.

The Company has been implementing supplemental restraint system air bag operations through KARE Inc., a joint venture established in February 2000 with Siemens VDO Automotive AG of Germany. However, Keihin and Siemens determined that it was in their mutual interests to pursue business expansion independently, best leveraging the unique individual characteristics of each company, and, consequently, in December 2002, the two partners signed an agreement to terminate their joint business operations and dissolve the joint venture. KARE's dissolution is currently scheduled for January 2004, until which time normal business operations will be maintained.

Unlocking potential

Keihin's Eighth Medium-Term Business Plan was implemented in April 2002. Under this three-year plan, scheduled for completion in fiscal 2005, we are implementing segment-specific business strategies in each of our four main businesses: motorcycles, recreational vehicles, and power products; automobiles; electronics; and air-conditioning systems. These initiatives target business growth and further enhancement of our corporate value.

Keihin's core competence lies in the predominance of its industry-leading technological strengths. In motorcycle carburetors, our technological acumen stands unrivaled in the industry. Further, our fuel injection systems, which were originally designed for use in automobiles, are also applicable to meeting the environmental restrictions being levied on motorcycle engines, thus giving us a foothold in both the motorcycle and automobile sectors. On the marketing side, Keihin boasts an overwhelming market share, with dynamic worldwide expansion focused on the growing markets of Asia and extending as far as Brazil and other countries in South America. In automotive operations, we have achieved definitive results in the development and sales expansion of fuel supply systems not only for gasoline-powered vehicles but also for such environmentally compliant next-generation products as fuel injection systems for CNG- and LPG-powered vehicles.

Owing to the persistence of slack conditions in the global economy, ongoing deflationary pressures, and certain other factors, Keihin forecasts that net sales will ease by 1.1%, to ¥252.6 billion, and net income will decrease 19.9%, to ¥7.7 billion in fiscal 2004.

Fiscal 2004 will be a year of challenges. In response, we will continue to target significant improvements in our developmental capabilities, cost-competitiveness, characteristic world-class quality, global supply framework, business content, and workplace environment. We expect our skill at "unlocking potential" will be put the test as never before, and we will aggressively engage in our businesses in the determination to fulfill the expectations of all of our valued stakeholders.

August 2003

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Kentaro Kato
President & CEO

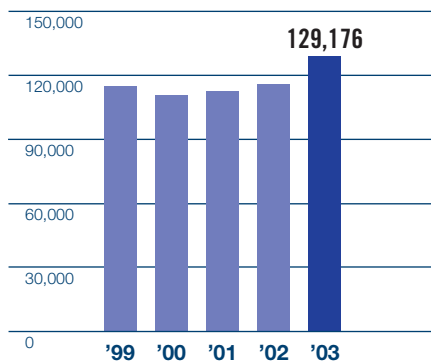
EXPANDING OUR GLOBAL OPERATIONS



Japan

Sales in Japan during fiscal 2003 increased 11.6% compared with the previous year on the strength of strong sales of new products and automotive products as well as increased knockdown exports, which compensated for the decline in sales of motorcycle products that occurred due to the transfer of operations overseas. Domestic activities are expected to increase in importance, especially at the R&D level.

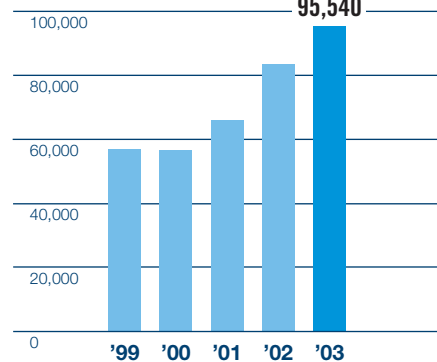
Net Sales (Millions of yen)

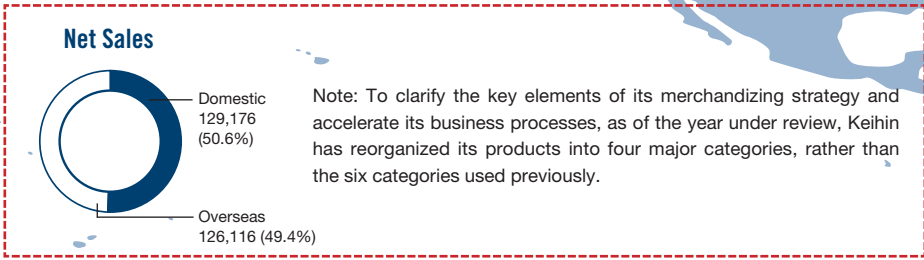


Americas

Sales climbed 14.3% thanks to a brisk performance in automotive products as well as the addition of Keihin Tecnologia do Brasil Ltda. to the scope of consolidation. The Americas will continue to play a crucial strategic role for Keihin, North America in particular in terms of marketing and South America especially on the production side.

Net Sales (Millions of yen)

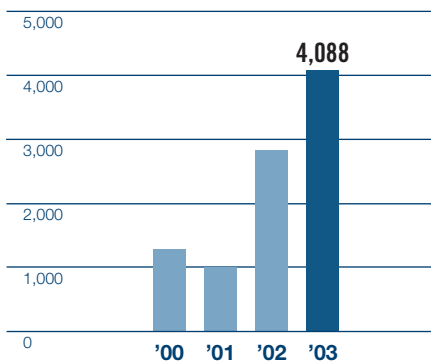




Europe

Sales surged 44.6% in large part because of the contributions of the electronics business acquired from Oki (UK) Ltd. Europe, being a region that is experiencing a high rate of corporate alliances and divisions, requires high-level competitiveness from a quality viewpoint as well. With the tremendous confidence we have in the quality of our products, we expect a substantial increase in our share of the European market.

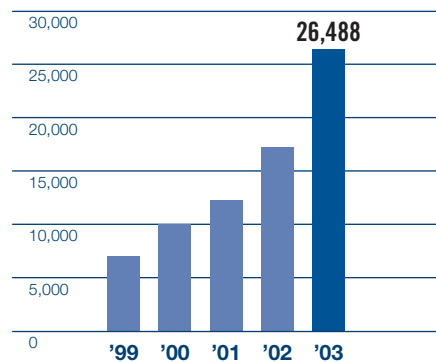
Net Sales (Millions of yen)



Asia

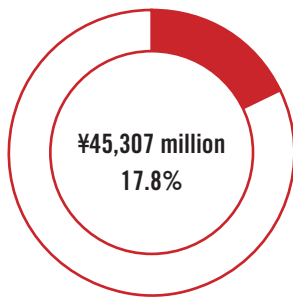
Sales surged 53.3% in Asia owing to the effectiveness of the efforts to increase sales of Keihin's subsidiaries in China, India, and Thailand and expanded product lineups. Asia is a strategically vital region and will play a central role in Keihin's global supply framework.

Net Sales (Millions of yen)





Fuel Supply Systems for Motorcycles, Recreational Vehicles and Power Products

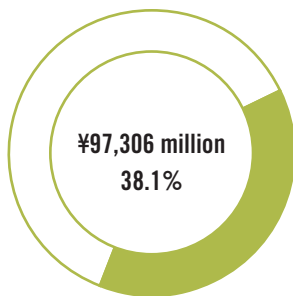


Even as business in the domestic market remained virtually unchanged compared with the previous year, sales in this segment increased 13.5%, to ¥45,307 million, on account of a solid performance in the North American market and an increased volume of motorcycle product sales in Asia.

Keihin carburetors are highly regarded by motorcycle manufacturers and general users alike for their high performance, precision, and reliability. Recently, Keihin has begun supplying fuel injection systems that are compatible with both large displacement motorcycles as well as small displacement motorcycles and scooters, thereby meeting the demand for high power and responsiveness and providing environmental solutions by producing cleaner emissions. This segment's fuel supply systems are also used in a wide variety of engines for watercraft and such industrial and agricultural equipment as electric generators and tillers.



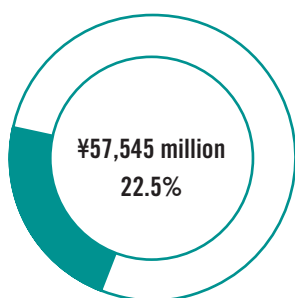
Fuel Control Systems for Automobiles



Sales in this segment increased 14.1%, to ¥97,306 million, thanks to healthy sales of fuel injection systems and engine peripherals to Keihin's major customers in Asia, including Japan, and North America.

Keihin manufactures and markets numerous vehicle control products that not only help enhance responsiveness but also produce cleaner emissions and improve fuel economy. These sophisticated products include fuel injection systems, solenoids for control of continuously variable transmissions and automatic transmissions, and VTEC spool valves that control engine intake and exhaust valve timing. We also supply fuel supply units for CNG and LPG fuels, which continue to gain popularity as next-generation fuels, and we are working to develop a full range of devices for fuel-cell vehicles.

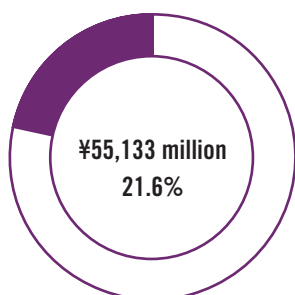
Electronic Control Units



Sales in this segment grew 21.1%, to ¥57,545 million, on the back of robust sales to major customers in Japan, North America, and Europe as well as an increase in sales throughout the year obtained as a result of Keihin's acquisition of car electronics operations from the Oki Electric group of companies.

Keihin manufactures and markets ECUs that regulate all kinds of vehicle devices, including fuel injection control units that regulate fuel- and air-supply volumes for optimal engine performance and units for engine peripherals, air bags, and other devices. The Company has assumed a leading role in the digitization of automotive technologies and supplies comprehensive solutions, from software development through to circuitry design, substrate and case design, and production.

Air-Conditioning Systems



Segment sales rose 18.0%, to ¥55,133 million, as a result of strong sales to major customers in Japan, other parts of Asia, and North America.

Keihin manufactures and markets a full range of innovative products in this segment, including lightweight and compact compressors and the Keihin HVAC Unit, an air-conditioning system that combines cooling and heating units and maintains optimal comfort in the vehicle interior by also controlling odors, noise, temperature distribution, and humidity.

Note: In the year ended March 31, 2003, Keihin changed the segmentation of its operations.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Keihin Corporation and Consolidated Subsidiaries
Years ended March 31, 2003, 2002, 2001, 2000 and 1999

	Millions of yen (except per share amounts)					Thousands of U.S. dollars (except per share amounts)
	2003	2002	2001	2000	1999	2003
For the year:						
Net sales	¥255,292	¥219,442	¥192,133	¥178,583	¥179,240	\$2,123,897
Fuel Supply Systems for Motorcycles, Recreational Vehicles and Power Products	45,307	39,906				376,930
Fuel Control Systems for Automobiles	97,306	85,277				809,538
Electronic Control Units	57,545	47,519				478,744
Air-Conditioning Systems	55,133	46,741				458,677
Cost of sales	219,145	191,017	169,662	156,157	156,315	1,823,170
Selling, general and administrative expenses.....	15,710	13,001	11,720	9,751	10,546	130,696
Operating income	20,438	15,424	10,751	12,675	12,379	170,031
Income (loss) before income taxes and minority interests in net income of consolidated subsidiaries	18,855	14,033	(1,296)	11,497	12,223	156,866
Net income (loss)	9,610	7,312	(1,518)	5,902	6,084	79,954
Depreciation and amortization.....	11,194	11,139	9,987	8,622	9,102	93,124
Research and development expenses	10,573	9,228	8,505	8,354	8,637	87,961
Capital expenditures.....	15,483	13,336	14,545	10,778	9,224	128,809
At year-end:						
Total shareholders' equity	¥ 75,010	¥ 69,534	¥ 61,804	¥ 63,882	¥ 57,412	\$ 624,041
Total assets.....	149,405	141,090	130,664	112,616	104,315	1,242,969
Per share of common stock (yen and U.S. dollars):						
Net income (loss):						
Basic	¥ 128.81	¥ 98.84	¥ (22.38)	¥ 95.72	¥ 98.68	\$ 1.07
Cash dividends	14.00	14.00	14.00	14.00	14.00	0.12
Shareholders' equity	1,012.93	939.95	835.36	1,036.13	931.19	8.43

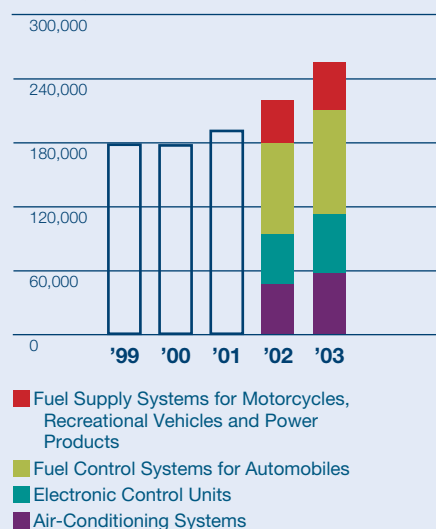
Notes: 1. The above amounts were prepared under generally accepted accounting principles and practices in Japan.

2. U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥120.20=US\$1. (See Note 3 of the Notes to the Consolidated Financial Statements.)

3. In the year ended March 31, 2003, Keihin changed the segmentation of its operations. Amounts for the year ended March 31, 2002, have been restated.

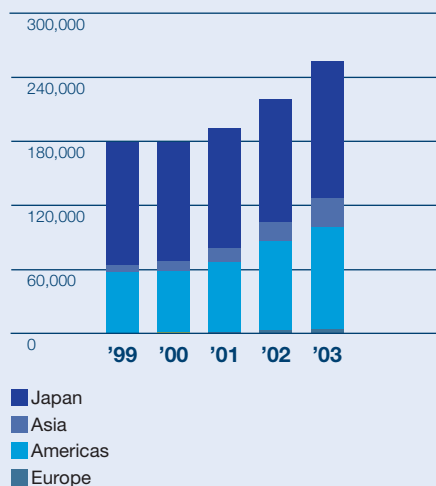
Net Sales by Business Segment

(Millions of yen)



Net Sales by Geographic Area

(Millions of yen)



The scope of consolidation includes 21 of the Company's 24 subsidiaries. Principal companies among these are Taiwan Keihin Carburetor Co., Ltd. (Taiwan), Nanjing Keihin Carburetor Co., Ltd. (China), Keihin Indiana Precision Technology, Inc. (United States), Keihin Carolina System Technology, Inc. (United States), Keihin Aircon North America, Inc. (United States), Keihin (Thailand) Co., Ltd. (Thailand), Keihin Philippines Corp. (Philippines), and Keihin FIE Pvt. Ltd. (India). Of the 21 consolidated subsidiaries, three were newly consolidated during fiscal 2003 due to their increased importance within the Keihin Group. The equity method has not been applied to Keihin's three non-consolidated subsidiaries and one affiliate. The appreciation of the yen during the term resulted in a yen-dollar exchange rate at fiscal year-end of ¥120.20 to US\$1.00, compared with ¥133.25 to US\$1.00 at the previous fiscal year-end. The average yen-dollar exchange rate was ¥121.20 for fiscal 2003 and ¥125.89 for the previous fiscal year.

Results of Operations

Net Sales

Due to strong sales of automotive products to Keihin's principal customers, consolidated net sales for fiscal 2003 increased 16.3%, to ¥255,292 million (US\$2,123.9 million), setting a record for the third straight consecutive year.

By geographic segment, despite an easing off of motorcycle product sales due to a trend toward transferring manufacturing operations overseas, sales in Japan increased 11.6% year on year,

to ¥129,176 million (US\$1,074.7 million), on the strength of healthy sales of automotive products, including new products, and an increase in knock-down exports.

Sales in the Americas climbed 14.3%, to ¥95,540 million (US\$794.8 million), thanks to healthy automotive product sales and the inclusion of Keihin Tecnologia do Brasil in the scope of consolidation.

Sales in Asia surged 53.3%, to ¥26,488 million (US\$220.4 million), as a result of the sales-boosting effects of Keihin's subsidiaries in China, Thailand, and India as well as increased product sales.

Sales in Europe jumped 44.6%, to ¥4,088 million (US\$34.0 million), as a result of the contribution to sales of electronics operations taken over from Oki (UK).

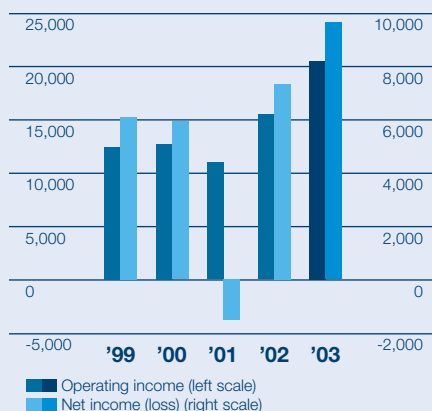
Overall overseas sales increased 21.8%, to ¥129,887 million (US\$1,080.6 million), and the percentage of consolidated net sales accounted for by overseas sales increased from 48.6% in the previous year to 50.9%.

Income and Expenses

Along with the gain in net sales, the cost of sales rose 14.7% year on year, to ¥219,145 million (US\$1,823.2 million), and selling, general and administrative expenses increased 20.8%, to ¥15,710 million (US\$130.7 million). As a result of the increase in net sales and the Company's hard work to reduce costs, operating income climbed 32.5%, to a record high of ¥20,438 million (US\$170.0 million). By geographic segment (before the

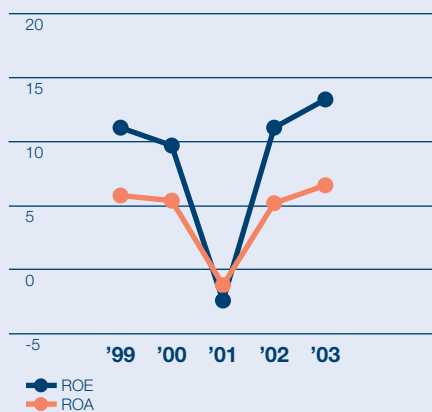
Operating Income and Net Income (Loss)

(Millions of yen)



ROE and ROA

(%)



elimination of intersegment transactions), operating income in Japan further improved over the previous fiscal year, surging 24.8%, to ¥9,784 million (US\$81.4 million). Operating income in the Americas rose 18.7%, to ¥7,024 million (US\$58.4 million). Operating income in Asia exploded 92.1%, to ¥3,836 million (US\$31.9 million), and operating income of ¥227 million (US\$1.9 million) was recorded for European operations.

Thanks to Keihin's initiatives to reduce costs and other Groupwide streamlining measures and the effect of increased product volume, consolidated recurring profit increased 29.0%, to ¥19,205 million (US\$159.8 million)—another Company record.

Interest expense, net of interest and dividend income, declined from ¥422 million in the previous year, to ¥44 million (US\$0.4 million). Although a foreign exchange gain of ¥230 million was recorded in the previous fiscal year, a foreign exchange loss of ¥452 million (US\$3.8 million) was logged for the year under review. Income before income taxes and minority interests in net income of consolidated subsidiaries increased from ¥14,033 million in fiscal 2002 to ¥18,855 million (US\$156.9 million) in fiscal 2003, and net income expanded from ¥7,312 million to ¥9,610 million (US\$80.0 million). Net income per share rose from ¥98.84 in the previous fiscal year to ¥128.81 (US\$1.07).

R&D Expenses

The basic policy for the R&D activities of the Keihin Group is to support the core

needs of automobile manufacturing.

The primary goal of these programs is to promote the advancement of environmental friendliness, safety, and comfort through the systematization and modularization of these commodities as well as the development of intelligent features—undertakings that are being conducted by the development departments of Keihin. Production on a global scale, adaptation to alternative energy sources, and environmental businesses are also proactively incorporated into the Company's R&D activities. R&D expenses for the year under review increased 14.6%, to ¥10,573 million (US\$88.0 million).

Capital Expenditures

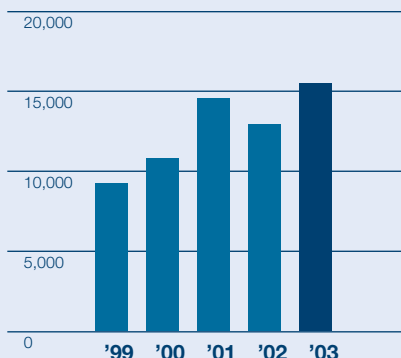
To support growth, capital expenditures for the year under review were up 16.1%, to ¥15,483 million (US\$128.8 million). Of this, ¥3,268 million was invested in motorcycle and stationary engine production facilities, ¥5,544 million in automotive part production facilities, ¥1,214 million in air conditioner production facilities, ¥3,227 million in ECU production facilities, ¥1,226 million in R&D, and ¥1,000 million in other areas. Depreciation and amortization increased 0.5%, to ¥11,194 million (US\$93.1 million).

Cash Flows

Cash and cash equivalents at end of year increased ¥1,282 million, to ¥10,677 million (US\$88.8 million). Although purchases of tangible and intangible assets amounted to ¥15,483 million and ¥3,701 million was used to repay borrowings, these items were

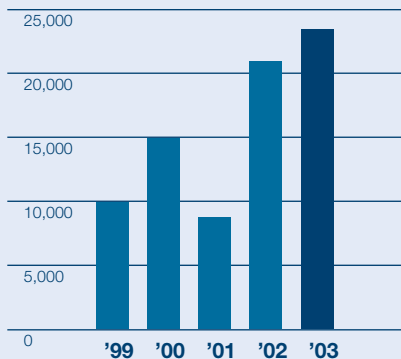
Capital Expenditures

(Millions of yen)



Cash Provided by Operating Activities

(Millions of yen)



compensated for by net cash provided by operating activities.

Net cash provided by operating activities rose ¥2,485 million, or 11.9% compared with the previous fiscal year, to ¥23,389 million (US\$194.6 million), due primarily to increases in accounts payable and revenue from operations in Asia and the resulting expansion in income before income taxes and minority interests in net income of consolidated subsidiaries, which compensated for increases in trade notes and accounts receivable and inventories.

Net cash used in investing activities was up ¥1,469 million, or 9.7%, to ¥16,649 million (US\$138.5 million), mainly on account of investments in R&D and new product models by the Company's subsidiaries in the Americas and by subsidiaries submitting consolidated financial statements.

Net cash used in financing activities increased ¥1,781 million, or 52.1%, to ¥5,202 million (US\$43.3 million), primarily as a result of loan repayment.

Financial Position

Total assets at fiscal 2003 year-end increased 5.9%, to ¥149,405 million (US\$1,243.0 million), compared with the previous fiscal year-end, and current assets increased 11.8%, to ¥79,080 million (US\$657.9 million). Cash climbed ¥1,029 million, to ¥10,999 million (US\$91.5 million), and property, plant and equipment rose ¥1,563 million, to ¥57,376 million (US\$477.3 million). Investments and other assets decreased ¥1,601 million, to ¥12,949 million (US\$107.7 million).

Current liabilities increased 3.0% compared with the previous fiscal year-end, to ¥50,154 million (US\$417.3 million). This increase was due primarily to the increase in trade notes and accounts payable.

Shareholders' equity increased 7.9%, to ¥75,010 million (US\$624.0 million). Shareholders' equity per share increased ¥72.98 from ¥939.95 in the previous year to ¥1,012.93 (US\$8.43). The equity ratio climbed 0.9 percentage point, to 50.2%.

CONSOLIDATED BALANCE SHEETS

Keihin Corporation and Consolidated Subsidiaries
As of March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current assets:			
Cash	¥ 10,999	¥ 9,970	\$ 91,506
Notes and accounts receivable—trade:			
Third-party customers	38,594	34,264	321,085
Unconsolidated subsidiaries and affiliates	987	818	8,212
	39,582	35,082	329,297
Inventories	21,898	20,631	182,180
Deferred income taxes	3,044	2,962	25,322
Other current assets	3,558	2,082	29,597
Total current assets	79,080	70,727	657,902
Property, plant and equipment:			
Land.....	6,147	6,166	51,137
Buildings and structures.....	27,020	26,696	224,793
Machinery and equipment.....	90,790	87,799	755,325
Furniture and tools	23,273	22,122	193,617
Construction in progress.....	4,311	4,751	35,868
	151,541	147,534	1,260,741
Less: Accumulated depreciation	(94,165)	(91,721)	(783,405)
	57,376	55,813	477,335
Investments and other assets:			
Investments in securities	4,388	5,488	36,506
Unconsolidated subsidiaries and affiliates.....	2,224	2,602	18,502
Long-term loans to employees.....	643	702	5,351
Deferred income taxes	3,483	3,353	28,978
Other assets	2,219	2,409	18,458
	12,957	14,554	107,795
Less: Allowance for doubtful accounts	(8)	(4)	(63)
	12,949	14,550	107,732
Total assets.....	¥149,405	¥141,090	\$1,242,969

The accompanying notes are an integral part of these financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current liabilities:			
Short-term bank loans.....	¥ 7,039	¥ 10,163	\$ 58,559
Current portion of long-term debt	437	435	3,635
Notes and accounts payable—trade.....	27,663	23,123	230,142
Accrued expenses	7,954	8,272	66,172
Income taxes payable	3,109	1,753	25,862
Other current liabilities.....	3,953	4,927	32,887
Total current liabilities.....	50,154	48,673	417,257
Long-term debt	—	579	—
Accrued retirement benefits:			
Directors and statutory auditors.....	457	375	3,804
Employees.....	11,855	11,511	98,629
Deferred income taxes	1,785	1,485	14,852
Other non-current liabilities	569	406	4,730
Total liabilities	64,820	63,029	539,272
Minority interests	9,575	8,527	79,656
Shareholders' equity:			
Common stock:			
Authorized:			
2002 and 2003—240,000,000 shares			
Issued:			
2002 and 2003—73,985,246 shares.....	6,932	6,932	57,673
Capital surplus.....	7,941	7,941	66,063
Earnings surplus.....	60,977	52,522	507,296
Net unrealized gains on securities.....	1,431	2,070	11,907
Adjustments on foreign currency statement translation	(2,256)	80	(18,767)
	75,025	69,545	624,172
Less: Treasury common stock, at cost	(16)	(11)	(131)
Total shareholders' equity	75,010	69,534	624,041
Contingent liabilities			
Total liabilities, minority interests and shareholders' equity	¥149,405	¥141,090	\$1,242,969

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Keihin Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Number of shares of common stock	Millions of yen					
		Common stock	Capital surplus	Earnings surplus	Net unrealized gains on securities	Foreign currency translation adjustment	Treasury common stock
Balance at March 31, 2001	73,985,246	¥6,932	¥7,941	¥46,306	¥2,062	¥(1,437)	¥ —
Net income for the year	—	—	—	7,312	—	—	—
Cash dividends paid	—	—	—	(1,036)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(60)	—	—	—
Unrealized gains on securities	—	—	—	—	8	—	—
Foreign currency translation adjustment	—	—	—	—	—	1,517	—
Treasury common stock acquired	—	—	—	—	—	—	(11)
Balance at March 31, 2002	73,985,246	6,932	7,941	52,522	2,070	80	(11)
Net income for the year	—	—	—	9,610	—	—	—
Cash dividends paid	—	—	—	(1,035)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(74)	—	—	—
Decrease due to additional consolidation of a subsidiary	—	—	—	(52)	—	—	—
Tax-effect adjustments related to previous years	—	—	—	6	—	—	—
Unrealized gains on securities	—	—	—	—	(638)	—	—
Foreign currency translation adjustment	—	—	—	—	—	(2,336)	—
Treasury common stock acquired	—	—	—	—	—	—	(5)
Balance at March 31, 2003	73,985,246	¥6,932	¥7,941	¥60,977	¥1,431	¥(2,256)	¥(16)

	Thousand of U.S. dollars					
	Common stock	Capital surplus	Earnings surplus	Net unrealized gains on securities	Foreign currency translation adjustment	Treasury common stock
Balance at March 31, 2002	\$57,673	\$66,063	\$436,956	\$17,217	\$ 665	\$ (91)
Net income for the year	—	—	79,954	—	—	—
Cash dividends paid	—	—	(8,616)	—	—	—
Bonuses to directors and statutory auditors	—	—	(618)	—	—	—
Decrease due to additional consolidation of a subsidiary	—	—	(433)	—	—	—
Tax-effect adjustments related to previous years	—	—	53	—	—	—
Unrealized gains on securities	—	—	—	(5,310)	—	—
Foreign currency translation adjustment	—	—	—	—	(19,432)	—
Treasury common stock acquired	—	—	—	—	—	(40)
Balance at March 31, 2003	\$57,673	\$66,063	\$507,296	\$11,907	\$(18,767)	\$(131)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Keihin Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥18,855	¥14,033	\$156,866
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,194	11,139	93,124
Loss on disposal of property and equipment	456	418	3,798
Decrease in warranty reserve	(38)	(438)	(315)
Increase in accrued retirement benefits of employees	344	461	2,860
Increase (decrease) in accrued retirement benefits of directors and statutory auditors	82	(98)	682
Interest and dividend income	(312)	(188)	(2,596)
Interest expense	356	610	2,960
Increase in trade notes and accounts receivable	(4,499)	(2,578)	(37,432)
(Increase) decrease in inventories	(1,267)	303	(10,539)
Increase in trade notes and accounts payable	4,231	526	35,197
Payment of directors' bonuses	(74)	(59)	(618)
Other, net	(627)	3,013	(5,224)
Subtotal	28,699	27,142	238,763
Proceeds from interest and dividend income	304	252	2,531
Payment of interest expenses	(356)	(610)	(2,960)
Payment of income taxes	(5,259)	(5,880)	(43,750)
Net cash provided by operating activities	23,389	20,904	194,585
Cash flows from investing activities:			
Payment for purchases of property, plant and equipment and intangible assets	(15,483)	(13,336)	(128,809)
Proceeds from sales of property, plant and equipment	422	172	3,515
Payment for purchases of investment securities	(90)	—	(749)
Proceeds from collections on loans	77	21	637
Payment for purchases of investments in capital	(1,708)	(1,997)	(14,207)
Other, net	132	(40)	1,101
Net cash used in investing activities	(16,649)	(15,180)	(138,511)
Cash flows from financing activities:			
Decrease in short-term loans, net	(3,124)	(3,141)	(25,991)
Borrowings of long-term debt	—	1,014	—
Repayment of long-term debt	(577)	—	(4,800)
Issuance of common stock	37	40	307
Payment for purchases of treasury stock	(5)	(11)	(40)
Payment of cash dividends by parent company	(1,036)	(1,036)	(8,616)
Payment of cash dividends to minority interest shareholders	(497)	(287)	(4,138)
Net cash used in financing activities	(5,202)	(3,421)	(43,278)
Effect of exchange rate changes on cash and cash equivalents	(977)	288	(8,130)
Net change in cash and cash equivalents	561	2,591	4,666
Cash and cash equivalents at beginning of year	9,395	6,804	78,160
Increase in cash and cash equivalents for additional consolidation of subsidiaries	721	—	6,000
Cash and cash equivalents at end of year	¥10,677	¥ 9,395	\$ 88,826

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Keihin Corporation (the “Company”) and its consolidated subsidiaries (together, the “Companies”) in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(1) Consolidation and Investments in Affiliates

The consolidated financial statements include the accounts of the Company and all significant subsidiaries where the Company has the ability to exercise significant influence over the subsidiaries’ operating and financial policies. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation. Certain consolidated subsidiaries are consolidated on the basis that their fiscal years ended December 31 and material differences in intercompany transactions and accounts arising from the use of the different fiscal year-end are appropriately adjusted on consolidation. The difference between the cost underlying net equity of investment in consolidated subsidiaries at the time of acquisition is charged to income when recognized.

Investments of 50% or less in companies over which the parent company does not have control but has the ability to exercise significant influence and investments in unconsolidated subsidiaries are stated at cost or less. The carrying value of the investments is written down to fair value when a decline in the fair value below cost is determined to be a permanent impairment of value. The equity method of accounting for investments in affiliates and unconsolidated subsidiaries has not been applied by the Company since the effect of its application is not material.

(2) Translation of Foreign Currency Transactions and Accounts

Foreign currency transactions are recorded using the prevailing foreign exchange rate at the transaction dates. Receivables and payables in foreign currencies are valued at year-end using the current exchange rates.

All the asset and liability accounts of foreign subsidiaries are translated at appropriate year-end current rates and income and expense accounts are translated using average rates in the respective years. The resulting translation adjustments are accumulated as a component of shareholders’ equity.

(3) Valuation of Securities

Investment securities expected to be held in the long term are classified as other securities. Other securities whose fair values are readily determinable are carried at fair value, with unrealized gains and losses recorded in shareholders’ equity, net of applicable income taxes. Other securities without fair values are carried at moving average cost.

(4) Derivative Financial Instruments

Derivative financial instruments, which include foreign currency forward exchange contracts and currency options, are used in the Company’s risk management of foreign currency risk exposures of its financial assets and liabilities based on the internal policy that stipulates that at least 60% of the foreign currency receivable balance is to be hedged. The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from their inception.

The Company enters into foreign currency forward exchange contracts and currency options to limit exposure to changes in foreign currency exchange rates on accounts receivable and cash flows generated from anticipated transactions denominated in foreign currencies. With regard to foreign currency forward exchange contracts, which are designated and effective as hedges of such currency exchange rate risk on existing assets and liabilities, the Company adopted the accounting method whereby foreign currency denominated assets and liabilities are measured at the contract rate of the respective foreign currency forward exchange contract. With respect to foreign currency forward contracts and currency options on anticipated transactions, the contracts are marked to market and unrealized gains/losses are deferred in the balance sheets to be recorded in operations when exchange gains/losses on the hedged items or transactions are recognized.

(5) Inventories

Inventories are generally stated at cost determined by the first-in, first-out method.

(6) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed at rates based on the estimated useful lives of assets using the declining balance method, except for depreciation of buildings, for which the straight-line method is applied. Depreciable assets of more than ¥100,000 and less than ¥200,000 are depreciated by the straight-line method over three years in accordance with corporate income tax laws in Japan. When assets are sold or otherwise disposed of, the profits or losses thereon, computed on the basis of the difference between depreciated cost and proceeds, are credited or charged to operations in the year of disposal, and cost and accumulated depreciation are removed from the respective accounts.

(7) Amortization of Intangible Assets

The amortization of intangible assets is computed using the straight-line method. Software for internal usage purposes is amortized over five years, the estimated useful life, using the straight-line method.

(8) Research and Development

Research and development expenses are charged to income when incurred.

(9) Income Taxes

The asset-and-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(10) Warranty Reserve

The reserve for warranty claims is provided based on the estimated amount of future expenditures for the servicing of after-sales returns of products based on the warranty agreement with customers.

(11) Retirement Benefits and Pension Plans

Employees of the Companies whose services are terminated are, under most circumstances, entitled to lump-sum severance indemnities or are eligible for pension benefits.

Lump-sum severance indemnities provided for employees are determined by reference to an employee's current basic rate of pay, length of service, position in their respective companies and termination circumstances. The Company maintains a contributory defined benefit welfare pension plan, which is pursuant to the Japanese Welfare Pension Insurance Law. Also, the Company and certain consolidated subsidiaries act as trustees for non-contributory defined benefit pension plans.

Retirement benefits, including pension costs and related liabilities, were recognized and computed using an actuarial appraisal approach known as the projected unit credit method. Under a defined benefit plan, the net pension cost for a period includes: i) service cost, ii) interest cost, iii) expected return on plan assets, iv) amortization of unrecognized prior service cost, v) amortization of unrecognized actual differences and vi) amortization of transition assets or liabilities at the date of initial application of the new accounting standard. Any difference between the net pension cost and the amount actually funded for the period is reported as unfunded accrued retirement benefits or prepaid pension costs on the balance sheets. In respect to the policy for the amortization of prior service cost and unrecognized actuarial differences, the Companies amortize on a straight-line basis over 3 years and 17 years, respectively, those that are within the period of the estimated remaining service periods.

The Companies provide for future severance payments to directors at the full amount which would be required under the Companies' policies if all of eligible directors retired at the balance sheet date.

(12) Appropriations of Retained Earnings

Under the Commercial Code of Japan and the Articles of Incorporation of the Company, the appropriations of retained earnings (including year-end cash dividend payments) proposed by the Board of Directors must be approved at the shareholders' meeting, which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the results of appropriations which were applicable to the immediately preceding financial year and approved at the shareholders' meeting and disposed of during that year. Year-end cash dividends are paid to shareholders on the shareholders' register at the end of each financial year.

As is customary practice in Japan, the payment of bonuses to directors and statutory auditors is made out of retained earnings, instead of being charged to operations for the year, and constitutes a part of the appropriations cited above.

The Commercial Code of Japan provides that interim cash dividends may be distributed upon the approval of the Board of Directors. The Company has paid such interim cash dividends to shareholders of record as of September 30 each year.

(13) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year. Cash dividends per share shown for each year in the consolidated statements of operations represent dividends declared as applicable to the respective period.

As there was no dilutive effect of convertible bonds and bonds with warrants on net income per share, such information is not required to be disclosed.

(14) Consumption Taxes

Consumption taxes are imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions).

The consumption tax withheld upon sales is not included in net sales in the accompanying consolidated statements of operations but is recorded as a liability. The balances of consumption tax withheld and consumption tax paid (an asset item), which is borne by the Company and its consolidated subsidiaries on purchases of goods and services, are not included in revenue and expenses in the consolidated statements of operations but are offset, and the net balance is included in other current assets or other current liabilities in the consolidated balance sheets at March 31, 2002 and 2003.

(15) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except for leases that do not transfer ownership of the assets at the end of the lease term, which are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(16) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with original maturities of three months or less and which represent a minor risk of fluctuations in value.

(17) Reclassification

Certain accounts in the consolidated financial statements for the year ended March 31, 2002 have been reclassified to conform to the 2003 presentation.

3. U.S. Dollar Amounts

The consolidated financial statements are prepared in yen. The U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥120.20=US\$1, the approximate rate of exchange prevailing at March 31, 2003. The inclusion of such dollar amounts is solely for the convenience of readers and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at ¥120.20=US\$1 or at any other rate.

4. Cash and Cash Equivalents

A reconciliation of cash in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows is as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Cash (balance sheets)	¥10,999	¥9,970	\$91,506
Time deposits with deposit terms of over 3 months	(322)	(575)	(2,680)
Cash and cash equivalents	¥10,677	¥9,395	\$88,826

5. Investment Securities

As of March 31, 2003 and 2002, the carrying values and acquisition costs of investment securities were set out as follows:

(1) Investment Securities with Market Value

As of March 31, 2003	Millions of yen		
	Acquisition Cost	Carrying Value	Difference
Carrying value exceeds acquisition cost:			
Shares.....	¥ 600	¥2,996	¥2,396
Others.....	1,000	1,026	27
Subtotal.....	1,600	4,022	2,422
Carrying value does not exceed acquisition cost:			
Shares.....	272	226	(46)
Others.....	21	18	(3)
Subtotal.....	293	244	(49)
Total.....	¥1,893	¥4,266	¥2,374

As of March 31, 2002	Millions of yen		
	Acquisition Cost	Carrying Value	Difference
Carrying value exceeds acquisition cost:			
Shares.....	¥ 854	¥4,400	¥3,546
Subtotal.....	854	4,400	3,546
Carrying value does not exceed acquisition cost:			
Shares.....	44	42	(2)
Others.....	1,020	984	(36)
Subtotal.....	1,064	1,026	(38)
Total.....	¥1,918	¥5,426	¥3,508

As of March 31, 2003	Thousand of U.S. dollars		
	Acquisition Cost	Carrying Value	Difference
Carrying value exceeds acquisition cost:			
Shares.....	\$ 4,994	\$24,923	\$19,930
Others.....	8,317	8,538	221
Subtotal.....	13,311	33,462	20,150
Carrying value does not exceed acquisition cost:			
Shares.....	2,262	1,880	(383)
Others.....	174	153	(21)
Subtotal.....	2,436	2,032	(404)
Total.....	\$15,747	\$35,494	\$19,747

(2) Other Investment Securities without Market Value

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Carrying Value			

Investment securities not listed except for over-the-counter dealings	¥32	¥62	\$263
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6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans consists principally of bank overdrafts, bearing interest at average annual rates of 3.2% and 3.1% in the years ended March 31, 2003 and 2002, respectively.

Short-term bank loans as at March 31, 2003 and 2002 were as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Bank overdrafts:			
Unsecured.....	¥7,039	¥10,163	\$58,559

Long-term debt as at March 31, 2003 and 2002 was as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Payable to domestic banks, with interest rates shown below (*):			
Unsecured.....	¥437	¥1,014	\$3,635
	437	1,014	3,635
Less: Amount due within one year..	(437)	(435)	(3,635)
	¥ —	¥ 579	\$ —
For the year ended March 31	2003	2002	
(*1) Interest rates.....	3.2%	3.1%	

7. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2003 and 2002 was 41.0%.

At March 31, 2003 and 2002, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
			2003
Current:			
Deferred tax assets:			
Unrealized profits on inventories.....	¥ 494	¥ 559	\$ 4,112
Write-down of inventories	147	231	1,224
Bonus reserve	1,060	747	8,818
Accrued enterprise taxes	217	180	1,804
Accrued expenses.....	894	753	7,437
Other	232	492	1,927
Total deferred tax assets.....	¥3,044	¥2,962	\$25,322
Deferred tax liabilities:			
Other	¥ 5	¥ —	\$ 42
Total deferred tax liabilities.....	¥ 5	¥ —	\$ 42
Non-Current:			
Deferred tax assets:			
Accrued retirement benefits:			
Directors and statutory auditors..	¥ 181	¥ 154	\$ 1,505
Employees	4,419	4,900	36,764
Unrealized profits			
on depreciable assets	198	156	1,648
Other	78	36	647
Total deferred tax assets.....	4,876	5,246	40,563
Offset against deferred			
tax liabilities	1,393	1,893	11,585
Net deferred tax assets	¥3,483	¥3,353	\$28,978
Deferred tax liabilities:			
Depreciation of overseas			
subsidiaries	¥1,657	¥1,411	\$13,783
Valuation of securities	962	1,454	8,000
Other	559	513	4,655
Total deferred tax liabilities.....	3,178	3,378	26,437
Offset against deferred			
tax assets	1,393	1,893	11,585
Net deferred tax liabilities.....	¥1,785	¥1,485	\$14,852

Accompanying the implementation of the Law to Revise a Portion of the Local Tax Law on March 31, 2003, the legal effective tax rate used in calculating deferred tax assets and deferred tax liabilities as at March 31, 2003, was changed to 39.7%, compared with 41.0% for the previous fiscal year. (However, this change applies only to deferred tax items that will be settled on or after April 1, 2004.) As a result, the amount of deferred tax assets (after deduction of deferred tax liabilities) was ¥107 million lower than it would have been using the rate for the previous year. In addition, consolidated income taxes were ¥137 million higher, and the valuation difference on other securities was ¥30 million higher than it would have been in the absence of the change in the effective tax rate.

Reconciliations of the difference between the statutory tax rate and the effective income tax rate in the accompanying consolidated statement of operations for the years ended March 31, 2002 and 2003 are as follows:

As of March 31	2003	2002
Statutory tax rate	41.0%	41.0%
(Adjustment)		
Inhabitants' tax on per-capita basis	0.2	0.2
Difference in subsidiaries' tax rates	(2.0)	(1.6)
Foreign tax credit	(1.0)	(0.9)
Others	0.3	(0.3)
Effective income tax rate	38.5%	38.4%

8. Lease Transactions

The Companies lease certain machinery and equipment and furniture and tools. Pro forma information relating to acquisition costs, accumulated depreciation and future minimum lease payments for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2003 and 2002 is as follows:

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Machinery and Equipment	Furniture and Tools	Total	Machinery and Equipment	Furniture and Tools	Total	Machinery and Equipment	Furniture and Tools	Total
Acquisition costs	¥80	¥27	¥108	¥84	¥357	¥441	\$669	\$226	\$896
Accumulated depreciation	80	14	94	76	337	413	669	113	783
Net leased property.....	¥—	¥14	¥ 14	¥ 8	¥ 20	¥ 28	\$ —	\$113	\$113

Future minimum lease payments under finance leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 7	¥15	\$ 57
Due after one year.....	7	14	57
Total	¥14	¥29	\$113

The acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of operations, computed by the straight-line method and with zero residual value for the years ended March 31, 2003 and 2002, would have been ¥15 million (US\$125 thousand) and ¥55 million, respectively.

Lease expenses on finance lease contracts without ownership transfer for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease expenses	¥15	¥55	\$125

9. Derivative Transactions

The Company's policy is to enter into derivative transactions, such as foreign currency forward exchange contracts, only for hedging, rather than for speculative purposes.

All counterparties are financial institutions with high credit ratings; accordingly, the credit risk through potential default is considered to be very low.

These derivative transactions are entered into in compliance with the Company's internal procedures, which include a requirement for reporting to the financial director and to the Board of Directors where appropriate.

10. Contingencies

At March 31, 2003, the Company was contingently liable as follows:

	Thousands of U.S. dollars	
	Millions of yen	U.S. dollars
As a guarantor of indebtedness of:		
Employees	¥507	\$4,221
Unconsolidated subsidiary	296	2,462

11. Segment Information

(1) Geographic Areas

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 by geographic area were as follows:

Year ended March 31, 2003	Millions of yen						Elimination and/or Corporate Assets	Consolidated
	Domestic (Japan)	Asia	Americas	Europe	Total			
Sales:								
Outside customers	¥129,176	¥26,488	¥95,540	¥4,088	¥255,292	¥ —	¥255,292	
Intersegment.....	53,046	3,129	1,636	111	57,923	(57,923)	—	
Total	182,222	29,617	97,176	4,199	313,215	(57,923)	255,292	
Operating costs and expenses.....	172,438	25,781	90,152	3,972	292,343	(57,489)	234,854	
Operating income	¥ 9,784	¥ 3,836	¥ 7,024	¥ 227	¥ 20,871	¥ (433)	¥ 20,437	
Identifiable assets.....	¥106,274	¥22,329	¥47,493	¥2,300	¥178,396	¥(28,991)	¥149,405	

Year ended March 31, 2002	Millions of yen						Elimination and/or Corporate Assets	Consolidated
	Domestic (Japan)	Asia	Americas	Europe	Total			
Sales:								
Outside customers	¥115,762	¥17,274	¥83,578	¥2,828	¥219,442	¥ —	¥219,442	
Intersegment.....	34,485	1,570	412	115	36,582	(36,582)	—	
Total	150,247	18,844	83,990	2,943	256,024	(36,582)	219,442	
Operating costs and expenses.....	142,405	16,847	78,071	2,982	240,305	(36,287)	204,018	
Operating income (loss).....	¥ 7,842	¥ 1,997	¥ 5,919	¥ (39)	¥ 15,719	¥ (295)	¥ 15,424	
Identifiable assets.....	¥ 97,875	¥16,931	¥48,229	¥1,732	¥164,767	¥(23,677)	¥141,090	

Year ended March 31, 2003	Thousands of U.S. dollars						Elimination and/or Corporate Assets	Consolidated
	Domestic (Japan)	Asia	Americas	Europe	Total			
Sales:								
Outside customers.....	\$1,074,676	\$220,366	\$794,842	\$34,010	\$2,123,894	\$ —	\$2,123,894	
Intersegment	441,314	26,032	13,611	923	481,889	(481,889)	—	
Total	1,515,990	246,398	808,453	34,933	2,605,782	(481,889)	2,123,894	
Operating costs and expenses	1,434,592	214,484	750,017	33,045	2,432,138	(478,278)	1,953,860	
Operating income	\$ 81,398	\$ 31,913	\$ 58,436	\$ 1,889	\$ 173,636	\$ (3,602)	\$ 170,025	
Identifiable assets	\$ 884,146	\$185,766	\$395,114	\$19,134	\$1,484,161	\$(241,191)	\$1,242,969	

(2) Overseas Sales

Overseas sales, which include export sales of the Company and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the years ended March 31, 2003 and 2002 were as follows:

Year ended March 31, 2003	Millions of yen				
	Asia	Americas	Europe	Others	Consolidated
Overseas sales	¥28,175	¥95,576	¥6,072	¥64	¥129,887
Consolidated net sales	—	—	—	—	255,292
Ratio of overseas sales to consolidated sales	11.0%	37.5%	2.4%	0.0%	50.9%

Year ended March 31, 2002	Millions of yen				
	Asia	Americas	Europe	Others	Consolidated
Overseas sales	¥16,974	¥84,796	¥4,761	¥90	¥106,621
Consolidated net sales	—	—	—	—	219,442
Ratio of overseas sales to consolidated sales	7.7%	38.7%	2.2%	0.0%	48.6%

Year ended March 31, 2003	Thousands of U.S. dollars				
	Asia	Americas	Europe	Others	Consolidated
Overseas sales	\$234,401	\$795,141	\$50,516	\$532	\$1,080,591
Consolidated net sales.....	—	—	—	—	2,123,897

12. Retirement Benefit Plan

The accrued retirement benefits for employees as of March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligations	¥59,456	¥50,284	\$494,642
Plan assets	25,098	26,239	208,802
Unrecognized prior service cost	(189)	(1,058)	(1,572)
Unrecognized actuarial differences	22,692	13,592	188,785
Reserve for retirement benefits..	¥11,855	¥11,511	\$ 98,627

The net pension expense related to retirement benefits for the years ended March 31, 2003 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥2,176	¥1,835	\$18,103
Interest cost	1,248	1,223	10,383
Expected return on plan assets	(917)	(889)	(7,629)
Amortization of unrecognized actuarial differences	822	394	6,839
Amortization of prior service cost	(431)	(586)	(3,586)
Net pension expense.....	¥2,899	¥1,977	\$24,118

Note: The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.

Assumptions used in the calculation of the above information were as follows:

As of March 31	2003	2002
Discount rate.....	2.0%	2.5%
Expected rate of return on plan assets.....	3.5%	3.5%
Method of attributing the projected benefits to periods of service.....	Straight-line basis	Straight-line basis
Amortization of unrecognized prior service cost.....	3 years	3 years
Amortization of unrecognized actuarial differences.....	17 years	17 years

13. Notes Receivable Matured at the Balance Sheet Dates

Notes matured at the balance sheet dates are treated as having been settled on the date actually settled. Notes receivable matured at the balance sheet dates and included in the consolidated balance sheets as of March 31, 2002 were ¥43 million.

14. Research and Development Expenses

Research and development expenses for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Research and development expenses	¥10,573	¥9,228	\$87,961

15. Appropriations of Retained Earnings

The appropriations of retained earnings with respect to the year ended March 31, 2003 proposed by the Board of Directors and approved at the shareholders' meeting held on June 24, 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
Cash dividends (¥7 (US\$0.06) per share).....	¥ 518		\$ 4,308
Directors' bonuses	82		682
Transfer to voluntary reserves, net.....	3,017		25,103
Total appropriations	¥3,617		\$30,093

ChuoAoyama Audit Corporation

Report of Independent Auditors

Eastmingseki Bldg. 42nd Floor
1-1-7, Kasumigasaka, Chiyoda-ku,
Tokyo 100-0038, Japan

To the Board of Directors and Shareholders of
Keihin Corporation

We have audited the accompanying consolidated balance sheets of Keihin Corporation and its subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Keihin Corporation and its subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

Tokyo, Japan
June 24, 2003

BOARD OF DIRECTORS

PRESIDENT & CEO

Kentaro Kato

SENIOR MANAGING DIRECTORS

Hirotooshi Suzuki

Katsumi Ichida

Yoshitada Sato

MANAGING DIRECTORS

Akihiro Yamato

Takao Ishii

Kanji Fujikawa

Eiji Yamamoto

Rikio Otomo

DIRECTORS

Masaru Hatano

Fumio Yamagata

Masami Watanabe

Tomio Aoi

Kazuyuki Sasa

Sosuke Sese

AUDITORS

Jitsuro Ikeshita

Tadashi Endo

Hitoshi Ohara

Katsumi Oya

(As of June 24, 2003)

Domestic Offices and Plants

Head Office

Shinjuku Nomura Bldg. 39F,
1-26-2 Nishi-Shinjuku, Shinjuku-ku,
Tokyo 163-0539, JAPAN
Tel: 03-3345-3411 Fax: 03-3345-3414

Iwate Plant

8-58-1, Ikkatai, Iwate-machi, Iwate-gun,
Iwate 028-4421, JAPAN
Tel: 0195-62-5137 Fax: 0195-62-5138

Kakuda Division 1

213, Takabatake-minami, Kajika, Kakuda-shi,
Miyagi 981-1581, JAPAN
Tel: 0224-63-1111 Fax: 0224-62-1283

Kakuda Division 2

3, Miyayachi, Sakura, Kakuda-shi,
Miyagi 981-1582, JAPAN
Tel: 0224-63-3111 Fax: 0224-63-2886

Kakuda Division 3

4-3, Miyayachi, Sakura, Kakuda-shi,
Miyagi 981-1583, JAPAN
Tel: 0224-63-3611 Fax: 0224-63-3616

Marumori Division

97, Terauchi-mae, Marumori-cho, Igu-gun,
Miyagi 981-2112, JAPAN
Tel: 0224-72-2772 Fax: 0224-72-6852

Kakuda Research & Development Center (Training & Welfare Center)

197-1, Nagare, Kakuda, Kakuda-shi,
Miyagi 981-1505, JAPAN
Tel: 0224-63-3480 Fax: 0224-63-3490

Tochigi Research & Development Center

2021-8, Hoshakuji, Takanezawa-machi,
Shiyoa-gun, Tochigi 329-1233, JAPAN
Tel: 028-680-1500 Fax: 028-680-1520

Sayama Plant

481-1, Hiranoshita, Nakashinden, Sayama-shi,
Saitama 350-1311, JAPAN
Tel: 042-958-6000 Fax: 042-956-1122

Asaka Office

T-BLD Asaka 5F, 2-4-25, Hon-cho, Asaka-shi,
Saitama 351-0011, JAPAN
Tel: 048-469-1208 Fax: 048-469-0674

Kawasaki Division

386, Ichinotsubo, Nakahara-ku, Kawasaki-shi,
Kanagawa 211-8580, JAPAN
Tel: 044-411-6301 Fax: 044-433-0086

Kawasaki Development Division

386, Ichinotsubo, Nakahara-ku, Kawasaki-shi,
Kanagawa 211-8580, JAPAN
Tel: 044-411-6331 Fax: 044-433-2545

Suzuka Plant

3361-1, Ichigaya, Kou-cho, Suzuka-shi,
Mie 513-0836, JAPAN
Tel: 0593-78-6701 Fax: 0593-78-1024

Hamamatsu Office

KI Bldg. 7F, 2-4, Tokiwacho, Hamamatsu-shi,
Shizuoka 430-0917, JAPAN
Tel: 053-457-3031 Fax: 053-457-3036

Domestic Subsidiaries

Nasu Seiki Mfg. Co., Ltd.
818, Kanaga, Karasuyama-machi, Nasu-gun,
Tochigi 321-0632, JAPAN
Tel: 0287-82-3641 Fax: 0287-84-3751

Kanazu Mfg. Co., Ltd.

125-3, Aramachi, Oyama, Kakuda-shi,
Miyagi 981-1502, JAPAN
Tel: 0224-63-2202 Fax: 0224-63-1201

Keihin Sogyo Co., Ltd.

7, Kurouchi, Oda, Kakuda-shi,
Miyagi 981-1514, JAPAN
Tel: 0224-62-0650 Fax: 0224-62-5910

Keihin Watari Co., Ltd.

1-5, Doda, Okuma-koya, Watari-cho,
Watari-gun, Miyagi 989-2324, JAPAN
Tel: 0223-34-0451 Fax: 0223-34-0453

KARE Inc.

4-3, Miyayachi, Sakura, Kakuda-shi,
Miyagi 981-1583, JAPAN
Tel: 0224-63-3869 Fax: 0224-63-3741

Keihin Electronics Technology Inc.

Senshu Bldg. 2F, 5-1-12 Tsutsujigaoka,
Miyagino-ku, Sendai-shi,
Miyagi 981-1581, JAPAN
Tel: 022-257-6201 Fax: 022-257-6217

Overseas Network

United States

Keihin Fuel Systems, Inc.
16341 West Lincoln Ave., New Berlin,
WI 53151, U.S.A.
Tel: +1-262-860-6000 Fax: +1-262-860-6001

Keihin Fuel Systems, Inc., Detroit Office
39555 Orchard Hill Place, Suite 245,
Novi, MI 48375-5377, U.S.A.
Tel: +1-248-449-3056 Fax: +1-248-449-3057

Keihin Indiana Precision Technology, Inc.
400 West New Rd., Greenfield, IN 46140, U.S.A.
Tel: +1-317-462-3015 Fax: +1-317-462-2983

Keihin IPT Manufacturing, Inc.
400 West New Rd., Greenfield, IN 46140, U.S.A.
Tel: +1-317-462-3015 Fax: +1-317-462-2983

Keihin Carolina System Technology, Inc.
4047 McNair Rd., Tarboro, NC 27886, U.S.A.
Tel: +1-252-641-6750 Fax: +1-252-824-1446

Keihin Aircon North America, Inc.
4400 North Superior Dr., Muncie, IN 47303, U.S.A.
Tel: +1-765-213-4915 Fax: +1-765-213-4930

Canada

Keihin Canada Service, Inc.
46 Wellington St. West, Unit #5,
Alliston, ON L9R 2B8, CANADA
Tel: +1-705-434-4973 Fax: +1-705-434-4978

Brazil

Keihin Tecnologia do Brasil Ltda.
Av. Torquato Tapajos, No 8003-Taruma,
Manaus, Amazonas, BRAZIL 69048-660
Tel: +55-92-228-4611 Fax: +55-92-228-4107

Taiwan

Taiwan Keihin Carburetor Co., Ltd.
No. 7, 7th Rd., Industrial Zone, Shi-ton District,
Taichung, TAIWAN
Tel: +886-4-2359-1483 Fax: +886-4-2359-3625

Thailand

Keihin (Thailand) Co., Ltd.
Northern Region Industrial Estate 74, Moo 4,
Tambon Ban-klang, Amphur Muang,
Lamphun 51000, THAILAND
Tel: +66-53-58-1189 Fax: +66-53-58-1193

Keihin (Thailand) Co., Ltd., Bangkok Office
22nd Fl., UBC II Bldg., 591 Sukhumvit Rd.,
North Klongton, Wattana,
Bangkok 10110, THAILAND
Tel: +66-2-261-0251 Fax: +66-2-261-0254

Keihin Auto Parts (Thailand) Co., Ltd.
Rojana Industrial Park 1/74, Moo 5,
Rojana Road, Tambol Karnharm,
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Sri Ayutthaya Province 13210, THAILAND
Tel: +66-35-33-0916 Fax: +66-35-33-0915

Philippines

Keihin Philippines Corp.
105 Trade Ave., Phase 4,
Laguna Technopark Brgy Loma,
Binan, Laguna 4024, PHILIPPINES
Tel: +63-49-541-1840 Fax: +63-49-541-1855

Keihin Auto Parts (Philippines) Corp.
105 Trade Ave., Phase 4,
Laguna Technopark Brgy Loma,
Binan, Laguna 4024, PHILIPPINES
Tel: +63-49-541-1840 Fax: +63-49-541-1855

India

Keihin Panalfa Ltd.
A-1 & A-2, Sector 81, NOIDA Phase-II,
Uttar Pradesh 201 301, INDIA
Tel: +91-11-8-456-8941 Fax: +91-11-8-456-8682

Keihin FIE Pvt. Ltd.
B-3, MIDC, Chakan, Phase 1,
Village Mahalunge, Taluka-Khed,
District-Pune, Maharashtra, INDIA
Tel: +91-20-410-3451~3 Fax: +91-20-410-3454

China

Nanjing Keihin Carburetor Co., Ltd.
Economic Development Area,
Luhe Nanjing, Jiangsu, CHINA
Tel: +86-25-715-2305 Fax: +86-25-715-2800

Zhanjiang Deni Carburetor Co., Ltd.
5 Hai Tian Rd., Chikan, Zhanjiang,
Guang Dong, CHINA
Tel: +86-759-336-3245 Fax: +86-759-331-4974

Dongguan Keihin Engine Management System
Co., Ltd.
Guan Cheng Science of Dongguan
China's Famous Universities HI-TECH City,
Guan Long Road, Dongguan City,
Guang Dong, CHINA
Tel: +86-769-265-8290 Fax: +86-769-265-5622

Keihin R&D China Co., Ltd.
Songjiang Science Park of Shanghai,
Xiaokunshang Village, Songjiang Ward,
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United Kingdom

Keihin Europe Ltd.
Craven House, 40 Uxbridge Rd.,
London W5 2BS, U.K.
Tel: +44-20-8810-1266 Fax: +44-20-8810-1277

Keihin Europe Ltd., Scotland Factory
Unit D, Watt Place, Hamilton International
Technology Park, Hamilton, Glasgow,
G72 0AG, U.K.
Tel: +44-(0)-1698-727100
Fax: +44-(0)-1698-727101

(As of March 31, 2003)

CORPORATE DATA

Date Established	December 19, 1956
Capital	¥6,932,340,000
Network	Head Office Shinjuku Nomura Bldg. 39F, 1-26-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-0539, Japan
Plants	8
Research and Development Centers	3
Offices	2
Subsidiaries	Japan: 6 Americas: 7 Asia: 10 Europe: 1
	(As of July 31, 2003)
Number of Employees	10,003
Independent Auditors	ChuoAoyama Audit Corporation
Common Stock	Authorized: 240,000,000 shares Issued: 73,985,246 shares
Number of Shareholders	3,775
Stock Listing	Tokyo Stock Exchange
Transfer Agent	The Mitsubishi Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan

Principal Shareholders

	Number of shares held (thousands)	Percentage of total shares outstanding (%)
Honda Motor Co., Ltd.	30,581	41.33
The Master Trust Bank of Japan, Ltd.	4,979	6.73
Trust & Custody Services Bank, Ltd.	4,406	5.96
Japan Trustee Services Bank, Ltd.	3,176	4.29
The Bank of Tokyo-Mitsubishi, Ltd.	1,744	2.36
The Mitsubishi Trust and Banking Corporation	1,680	2.27
UFJ Trust Bank Limited	1,509	2.04
Mitsui Asset Trust & Banking Company, Limited	1,360	1.84
The Bank of Yokohama, Ltd.	1,100	1.49
UFJ Bank Limited	1,067	1.44

Stock Price

		FY1999	FY2000	FY2001	FY2002	FY2003
First	High	1,508	1,458	910	1,300	1,460
Quarter	Low	1,225	1,225	671	950	1,214
Second	High	1,583	1,783	865	1,510	1,440
Quarter	Low	1,295	1,262	720	854	1,151
Third	High	1,408	1,498	1,028	1,200	1,375
Quarter	Low	901	926	786	978	1,070
Fourth	High	1,417	967	1,010	1,329	1,273
Quarter	Low	1,161	751	778	1,051	1,020

Retroactively adjusted for stock split

<http://www.keihin-corp.co.jp>

(As of March 31, 2003)

